IN THE UNITED STATES DISTRICT COURT
FOR THE EASTERN DISTRICT OF VIRGINIA
ALEXANDRIA DIVISION

ROSETTA STONE LTD.,	)	
	)	
Plaintiff,	)	
	)	
vs.	)	**Civ. Action No. 1:09-cv-00736(GBL/TCB)**
	)	
GOOGLE INC.,	)	
	)	
Defendant.	)	
	)	

MEMORANDUM IN SUPPORT OF PLAINTIFF'S UNOPPOSED
MOTION FOR LEAVE TO FILE A FIRST AMENDED COMPLAINT

On July 10, 2009, Rosetta Stone filed an eight-count Complaint against Defendant Google Inc. ("Google") seeking to stop Google's unauthorized use and sale of Rosetta Stone's trademarks as keywords that trigger third-party, paid advertisements on Google search-results webpages. For approximately five years, Google has sold Rosetta Stone's registered trademarks to competitors of Rosetta Stone as well as to illegitimate, and sometimes fly-by-night, companies that sell illegal pirated and counterfeit software under the Rosetta Stone brand. Google's practices of exploiting Rosetta Stone's trademarks without authorization not only have financially harmed Rosetta Stone by diverting Rosetta Stone's customers to competitors and pirates, but also have allowed Google to unjustly reap millions of dollars in advertising profits from Rosetta Stone's famous marks. After engaging in limited discovery, Rosetta Stone now wishes to amend its complaint to narrow the issues for trial and to add an alternative theory of recovery. Without accepting the arguments presented herein, Defendant Google does not oppose this motion.

BACKGROUND

Rosetta Stone is a leading provider of innovative, interactive language-learning software. (Compl. ¶ 14.) Founded in 1992, Rosetta Stone provides language-learning solutions in 30 languages to governments, corporations, and individual customers in 150 countries. (*Id.*) To promote its products and its brand, Rosetta Stone invests approximately $100 million annually in worldwide advertising and marketing. Rosetta Stone's registered trademarks are a critical component of its effort to build the Company's fame, reputation, and goodwill. (*Id.* ¶¶ 19-20.) Indeed, Rosetta Stone's substantial investment in advertising and promotion has resulted in wide public acceptance and recognition of its trademarks as being uniquely associated with Rosetta Stone and its products. (*Id.* ¶ 19-21.) Thus, these marks are assets of immense value to Rosetta Stone, as they serve as distinctive symbols of Rosetta Stone, its high-quality products and services, and its goodwill. (*Id.* ¶ 21.)

Google is an enormously successfully multinational corporation. In 2009, the company generated approximately $23 billion in gross revenue. Google is best known for its popular search engine through which it derives 99% of its revenues from advertising. The centerpiece of Google's advertising platform is its AdWords program, which allows companies to purchase advertising on Google's search-results pages that is triggered when web users enter certain keywords into Google's search engine. (*Id.* ¶ 36.) Google holds an auction through which it sells to third parties the right to have certain search terms, which are known as keywords and include registered trademarks, trigger their ads. Google refers to these advertisements as "Sponsored Links," and the bidders most attractive to Google receive the most desirable and visible advertising positions along the top and right-hand side of the search-results page. (*Id.* ¶¶

36-39.) The advertisers then pay Google *each* time a web user clicks on or accesses the advertiser's Sponsored Link. (*Id.* ¶ 37.)

Before 2004, Google did not permit companies to bid on, or use, the trademarks of other companies as keyword triggers without express authorization from the trademark owner. (*Id.* ¶ 42.) In 2004, however, Google decided to change its policy so that it could generate hundreds of millions, if not billions, in gross revenues by selling trademarks of others in the United States and Canada. (*Id.* ¶ 44.) Although incredibly lucrative, the new policy also was fraught with significant risk. In light of this, Google was compelled to warn investors of the potential adverse consequences of exploiting other companies' trademarks without authorization:

> As a result of this change in policy, we may be subject to more trademark infringement lawsuits. . . . Adverse results in these lawsuits may result in, or even compel, a change in this practice which could result in a loss of revenue for us, which could harm our business.

(*Id.* ¶ 45 (quoting Google's Form S-1 Registration Statement, April 29, 2004, at 10).) In 2009, Google once again revised its trademark policy in an effort to generate hundreds of millions in additional annual revenue. Under its new and current policy, Google allows advertisers to use other companies' trademarks in the text of their advertisements – even when the trademark owner has expressly prohibited the advertiser's use of its marks. (*Id.* ¶ 50.)

Rosetta Stone never provided Google permission to use or sell Rosetta Stone's trademarks to promote the goods and services of third parties. (*Id.* ¶ 48.) Yet, under its AdWords program, as governed by the revised trademark policies described above, Google allows – indeed, even encourages – third parties to bid on and purchase Rosetta Stone's marks to generate ads for competitor and pirated goods and to appear in the text of their advertisements. (*Id.* ¶¶ 31, 49, 52-53, 57.) Google's unauthorized exploitation of Rosetta Stone's trademarks "generates profits for Google and its advertisers that are directly attributable to their unauthorized exploitation of the value and name recognition associated with the Rosetta Stone marks." (*Id.* ¶ 33.) In addition to the lost sales and profits caused by the diversion of Rosetta Stone customers to competitors and pirates, Rosetta Stone receives no compensation, including licensing fees or royalties, from Google or the third parties for use of the marks. (*Id.* ¶ 62.) Google's actions therefore have allowed it and its advertisers "to benefit financially from and trade off the goodwill and reputation of Rosetta Stone without incurring the substantial expense that Rosetta Stone has incurred in building its popularity, name recognition, and brand loyalty." (*Id.* at 58.)

Rosetta Stone has repeatedly expressed its disapproval of Google's unauthorized use of its marks and has asked that Google end the practice, but Google has ignored Rosetta Stone's pleas. Because of Google's refusal to address Rosetta Stone's concerns, Rosetta Stone had no choice but to file the instant action to protect its intellectual property rights. To that end, Rosetta Stone filed a complaint seeking relief based on the following claims: Trademark/service mark infringement under the Lanham Act (Count I); contributory trademark/service mark infringement under the Lanham Act (Count II); vicarious trademark/service mark infringement under the Lanham Act (Count III); false representation under the Lanham Act (Count IV); trademark/service mark dilution under the Lanham Act (Count V); trademark infringement under Virginia law (Count VI); unfair competition under Virginia law (Count VII); and violations of section 18.2-499 of the Virginia Code (Count VIII). All the counts relate to Rosetta Stone's claim that Google is profiting unjustly from the sale of Rosetta Stone's intellectual property and trademarks.

Because Google has filed a responsive pleading, Rosetta Stone must seek leave of the Court to file its First Amended Complaint. *See* Fed. R. Civ. P. 15(a)(2). If permitted to do so, Rosetta Stone would amend its Complaint in three ways.[1] First, Rosetta Stone would simplify presentation of the issues for trial by reducing the number of trademarks that will be at issue. Accordingly, Rosetta Stone seeks leave to remove the following eight marks from its Complaint: GLOBAL TRAVELER, LANGUAGE LIBRARY, DYNAMIC IMMERSION, THE FASTEST WAY TO LEARN A LANGUAGE. GUARANTEED., ADAPTIVE RECALL, CONTEXTURAL FORMATION, SHAREDTALK and AUDIO COMPANION.

Second, as an administrative matter, Rosetta Stone would further simplify presentation of the issues for trial by removing Counts IV and VIII, which were dismissed pursuant to the Court's September 21, 2009 Order.[2]

Third, Rosetta Stone would add a single count to pursue recovery under an alternate theory of liability—Virginia common law unjust enrichment—that depends on the same facts as other claims in the Complaint.

ARGUMENT

When a party requests leave to amend its pleadings after service of a responsive pleading, "the court should freely give leave when justice so requires." Fed. R. Civ. P. 15(a)(2). The Supreme Court has explained that "this mandate is to be heeded." *Foman v. Davis*, 371 U.S. 178, 182 (1962). The Fourth Circuit "reads Rule 15(a) to mean that leave to amend should be denied only when the amendment would be prejudicial to the opposing party, there has been bad faith on the part of the moving party, or amendment would be futile." *Matrix Capital Mgmt.*

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[1] Plaintiff's proposed amended Complaint is attached to Rosetta Stone's Motion as Exhibit 1. For the Court's convenience, a redlined copy of Plaintiff's proposed amended Complaint showing the proposed changes is attached as Exhibit 2.

[2] In doing so, Rosetta Stone does not intend to waive any rights it has to appeal dismissal of the counts at issue and hereby expressly reserves its right to appeal dismissal of these claims.

Fund v. BearingPoint, Inc., 576 F.3d 172, 193 (4th Cir. 2009) (finding district court abused its discretion by refusing to grant leave to amend). Rosetta Stone easily meets its burden under Fourth Circuit jurisprudence because the amendments would not prejudice Google, are not submitted in bad faith, and would not be futile. *See Laber v. Harvey*, 438 F.3d 404, 429 (4th Cir. 2006) (en banc) (failure to grant leave to amend in such circumstances was erroneous).

A. Rosetta Stone's Proposed Amendments Will Not Prejudice Google.

The lack of any prejudice to Google is evident from both the proposed changes to the Complaint and Google's non-opposition to the motion. The first two proposed changes – reducing the number of trademarks at issue and removing the claims already dismissed by this Court – are not controversial. Indeed, reducing the number of trademarks that Google has allegedly infringed from 12 to four will streamline the issues for trial. Moreover, conforming the complaint to the Court's earlier ruling by removing Counts IV and VIII is a housekeeping matter of no consequence to either party.

The third proposed amendment pertains to the addition of an unjust enrichment claim as an alternative theory of liability. Proof of Rosetta Stone's unjust enrichment claim, however, is derived from the same core of operative facts that gives rise to the Lanham Act violations. Paragraphs 13 through 69 of the Complaint allege that Google has used Rosetta Stone's marks without Rosetta Stone's authorization, has sold its trademarks as keyword triggers for third-party advertising, and has retained these profits without paying for the value that Rosetta Stone has created in its intellectual property. Those same facts, which support the claims currently in the Complaint, also establish that Google has been unjustly enriched by its ability to collect advertising revenue from its unauthorized use of Rosetta Stone's intellectual property. Indeed, the background section of this memorandum articulates the factual basis for Rosetta Stone's unjust enrichment, and each material fact is cited directly to allegations previously plead in the Complaint. Accordingly, there is no prejudice to Google in permitting the Amended Complaint to be filed.

B. Rosetta Stone's Claim For Unjust Enrichment Is Neither Frivolous Nor Futile.

Rosetta Stone is seeking leave to amend its Complaint because unjust enrichment is a viable basis for recovery based on the facts of this case. Leave to amend should only be denied on the ground of futility when the proposed amendment is "clearly insufficient or frivolous on its face." *Johnson*, 785 F.2d at 510. Rosetta Stone's proposed amendments easily clear this hurdle. As explained above, the facts alleged in the Complaint state a claim for unjust enrichment liability. As alleged in the Complaint, Google has seized the benefit of use of Rosetta Stone's marks for its own benefit, it has done so knowingly, and it is inequitable for Google to retain that money that it derived from unlicensed use of Rosetta Stone's marks. *See Schmidt*, 276 Va. at 116, 661 S.E. 2d at 838; *In re Bay Vista of Virginia, Inc.*, 2009 WL 2900040 at *5. Therefore, the facts alleged in the Complaint give rise to a claim for unjust enrichment liability.

Rosetta Stone's proposed amendment likewise is neither futile nor frivolous because it is perfectly permissible for a litigant to pursue alternative theories of liability. *See Polar Commc'ns Corp. v. Oncor Commc'ns, Inc.*, 927 F. Supp. 894, 896 (D. Md. 1996) ("Parties may plead alternative theories of liability, indeed as many theories as the facts will fit."). More specific to the instant case, plaintiffs have routinely pled Lanham Act claims and common law unjust enrichment claims in the same complaint. Indeed, courts throughout the Fourth Circuit have considered unjust enrichment claims concurrently with Lanham Act claims. *See Cardservice Int'l, Inc. v. McGee*, 950 F. Supp. 737 (E.D. Va. 1997) (finding defendant's use of "cardservice.com" and "Card Service on the Caprock" constituted trademark infringement in violation of the Lanham Act; ordering a permanent injunction and attorneys' fees); *see also, e.g.*, *Cagan v. Popeye's of Maryland*, No. 98-1291, 163 F.3d 598 (Table), 1998 WL 637343 (4th Cir. Aug. 31, 1998) (affirming lower court grant of summary judgment without discussion); *Innovative Value Corp. v. Bluestone Financial, LLC*, No. DKC 2009-0111, slip op., 2009 WL 3348231 (D. Md. Oct. 15, 2009) (granting injunctive relief for, among other claims, trademark infringement and unjust enrichment where plaintiff suffered irreparable injury and further infringement was a continuing threat, making remedies at law insufficient).

CONCLUSION

For the foregoing reasons, Rosetta Stone respectfully requests that this Court grant its Unopposed Motion for Leave to File a First Amended Complaint.

Respectfully submitted,

March 3, 2010

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CERTIFICATE OF SERVICE

I hereby certify that on March 3, 2010 I will electronically file the foregoing with the Clerk of the Court using the CM/ECF system which will then send a notification of such filing (NEF) to the following:

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